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ILLINOIS DEPARTMENT OF LABOR
BUREAU OF EMPLOYMENT SECURITY
DIVISION OF UNEMPLOYMENT COMPENSATION

THE ILLINOIS UNEMPLOYMENT
TRUST FUND, 1939-1971

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The Illinois Unemployment Trust Fund, 1939-1971

Introduction

This report gives the past trends, current status, and future outlook of the Illinois unemployment trust fund. The past trends and current status are shown in the attached tables 1 and 2. Three alternative economic assumptions are made for the period from 1969 through 1971 and are set forth in table 3. The resulting changes in the trust fund are given in table 4. Table 5 gives the contribution rates, contributions, and factors which determine them.

Past trends

The fund had declined from a high of \$514 million on June 30, 1953 to a low of \$316 by June 30, 1959 (table 1). Improved economic conditions and the 1959 amendments to the Unemployment Compensation Act strengthened it to \$564 million as of June 30, 1967. However, the very low contribution rates during 1967 and 1968, which failed to replenish the benefits paid during that period, resulted in a reduction in the trust fund balance to \$529 million as of June 30, 1968.

Current status of the fund

On June 30, 1968 the balance of the fund was 2.50 percent of the total wages covered by unemployment compensation in 1967. The highest benefit cost rate in any 12-month period in the preceding decade was 1.73 percent of total wages. The fund, expressed as a percentage of wages was, therefore, 1.45 times this rate. This multiple is below the range of 1.5 - 3.0 which is considered desirable for the fund.^{1/}

Assumptions for the future

To estimate future values of the fund, assumptions were made concerning total wages, taxable wages, benefit cost rates, and the unadjusted state experience factors between now and the end of 1971. The values of these items over the past years as shown in tables 1 and 2 served as useful background in deriving the assumptions for the future. Three different sets of assumptions are set forth in table 3, and these are used in estimating the values of the trust fund in 1969-71. They are identified as follows:

1. Continued prosperity in 1969-71
2. Mild recession in 1970
3. Severe recession in 1970.

^{1/} Interstate Conference of Employment Security Agencies, Report of Committee on Benefit Financing, September 1959, pp. 22-23. In the application of this criterion, a multiple of the highest postwar cost rate was originally used. Recently, however, a multiple of the highest cost rate in the past decade has been substituted. See Interstate Conference of Employment Security Agencies, Minutes of Benefit Financing Committee, March 19-21, 1963, p. 14.



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These assumptions are not predictions, but are the specific values assigned to represent broad classes of economic conditions. They, thus, describe three particular types of economic conditions. They do not cover all possibilities or even the complete range of possibilities. What actually happens depends on how closely actual economic conditions will match those assumed. The assumptions are, nevertheless, useful in identifying sets of conditions which may be described as continued prosperity, mild recession and severe recession.

Under the assumption of continued prosperity in 1969-71, benefit cost rates as percentages of total wages are expected to be slightly below the 1968 rate (estimated as 0.41 percent). Specifically it is assumed that the cost rate will be 0.4 percent throughout 1969-1971.

Under the assumptions of either a mild or severe recession in 1970, it is expected that unemployment, and consequently the cost rate, will begin to rise in the last half of 1969. Such a rise actually occurred in 1957 and 1960 preceding the recessions of 1958 and 1961. It is, therefore, assumed that, prior to a recession, the cost rate will be 0.60 percent in 1969.

Under the assumption of a mild recession in 1970, the benefit cost rate as a percentage of total covered wages will rise to 1.1 percent in 1970, and will drop back to 0.7 percent in 1971 as recovery begins (table 3).

Under the assumption of a severe recession in 1970, the benefit cost rate as a percentage of total covered wages will rise to 1.7 percent in 1970, and will drop back to 0.9 percent in 1971. The recovery is thus assumed to be relatively greater, but not yet as complete as it would have been in a mild recession. The relative rates of recovery are suggested by historical experience.

Future values of the fund

The changes in the unemployment trust fund in 1968-71 (table 4) were estimated on the basis of the assumptions in table 3. The balance of the fund was \$560,347,000 at the beginning of 1968. By June 30 of that year it had dropped to \$529,137,542 (table 1). It is estimated that, including fourth quarter interest receipts, it was about \$519,000,000 by December 31. From this figure future values are projected based on the three sets of assumptions.

From 1969 on the changes in the fund will vary according to the assumptions made. Under the assumed continued prosperity, the fund will continue to drop to \$483,000,000 by the end of 1969, \$459,100,000 by the end of 1970, and \$445,400,000 by the end of 1971 (table 4). The average contribution rate will rise in 1969 to an estimated 0.40 from an estimated 0.27 in 1968 (table 5). This is the result of the increased adjusted state experience factor, raised from 4 to 9 (table 2). Nevertheless, benefits are expected to exceed income from contributions and interest, thus continuing to lower the fund.

The reduced trust fund balances of successive years will result in increasing adjusted state experience factors and resultant increased contributions through 1970 and 1971. However, the amount of benefits will also increase with the growth in covered employment and total wages so that expenditures will continue to exceed receipts. Even with continued prosperity, the trust fund balance is expected to decline to an estimated \$459,100,000 in 1970 and \$445,400,000 in 1971.

The drop in the dollar value of the fund and the continuous rise in the total wages in covered employment during continuing prosperity will cause the fund as a percentage of total wages to decline from 2.36 percent at the end of 1968 to 1.62 percent at the end of 1971 (table 4). This latter percentage is 1.25 times the highest twelve month cost rate in the last decade, which is below the recommended minimum of 1.5 times that rate.

At the close of the calendar year 1968, the trust fund is already below the above commonly applied standard of adequacy. It is, in fact, only 1.36 times the applicable highest cost rate.

For a brief period toward the end of 1969, under the assumption of continuing prosperity, the balance will exceed 1.5 times the highest cost rate only because a more recent highest cost rate, which is below the one previously used, is applicable to 1969-71. Even with this lower divisor, however, the balance would fall below the 1.5 multiple before the end of 1970. It would not, under any of the economic assumptions of the study, regain this proportion by December 31, 1971, the terminal date of our projections.

Under the assumptions of a mild or severe recession in 1970, the reserve fund would drop from 1968 through 1971 even more rapidly and drastically than under continued prosperity. If the recession is mild, the fund would decrease to \$436,600,000 by the end of 1969, to \$253,800,000 by the end of 1970 and to \$247,300,000 by December 31, 1971. If the recession is severe, the fund would be \$437,500,000 by the end of 1969, \$125,300,000 by the end of 1970, and \$97,700,000 on December 31, 1971 (table 4).

In the event of a severe recession of the dimension assumed in table 3, the highest cost rate applicable at the end of 1970 would be at least 1.7 percent of total wages. Partially as a result of this, the trust fund as a multiple of the highest cost rate would be reduced to lows of 0.32 and 0.24 respectively at the ends of the calendar years of 1970 and 1971.

Since the recessions are assumed for 1970, it is unlikely that another would recur in 1972, or soon afterward, before the fund made some recovery. However, if the recession of 1970 were to be of much longer than average duration or if another should start in 1972 or soon afterwards, the reserve cannot be considered adequate to meet it.

Conclusion

The trust fund is not in danger of exhaustion by the end of 1971, but a recession might reduce the balance to a very low level. This raises the question of the adequacy of the fund and the \$450 million goal set for it in 1959.

The Advisory Board in its report of 1959 said: "In making recommendations set forth above, the Advisory Board is cognizant of the fact that a fund of \$450,000,000 by the end of 1961 is a minimum replenishment goal in view of the heavy demands that may be made on the fund in the event of an economic setback of unexpected severity. The Board is deeply concerned over the possible inadequacy of a \$450,000,000 fund in the event of a recession of unforeseen dimensions. Accordingly, the Board suggests the possibility, if unforeseen future circumstances deplete the fund to dangerously low levels, of applying for Federal advances under the Employment Security Administrative Financing Act of 1954 (the Reed Act)."

The following general policy guidelines may be considered for maintaining an adequate fund:

1. The fund should be between 1.5 and 3 times the highest 12-month cost rate.
2. The funding system should provide for contracyclical financing.^{1/} If this cannot be attained, due to problems in forecasting, minimal rate fluctuation from year to year is highly desirable from the viewpoint of the effect on the economy and the welfare of the employer. Sharp fluctuations in rates should be avoided.
3. The effectiveness of the experience rating system should be maintained.

Past experience with respect to these three considerations may serve as a guide for future decisions. As of June 30, 1959 the \$450 million goal as a percentage of total wages was approximately two times (2.04) the highest cost rate in the past decade. After the institution of this goal, contribution rates were raised to a relatively high level. In spite of the policy of contracyclical financing, the rates continued relatively high throughout the recession of 1961-1962, and remained high until the goal was nearly attained on June 30, 1964 (\$440 million). Experience rating was partially ineffective. When contribution rates are high, there is an increase in the number of employers who do not pay commensurate with the unemployment for which they are responsible, because of the ceiling placed on rates (2.7-4 percent). This means that employers who do pay their own way must, in addition, finance part of the costs attributable to "penalty rate" employers. Furthermore, employers contend that maximum rated employers lose incentive to contest ineligible claims.

^{1/} See "Declaration of Public Policy", The Unemployment Compensation Act, P. 1, which provides for "the setting aside of reserves during periods of employment to be used to pay benefits during periods of unemployment..."

The potential liability of the fund has increased drastically since 1959. This is evidenced by increases in the number of covered workers, total wages, and the average weekly benefit amount. The number of covered workers has risen from 2.6 million in 1959 to an estimated 3.2 million in 1968. Total wages, generally recognized as a benchmark of potential liability, have increased about 73 percent from \$13.2 billion in 1959 to an estimated 22.8 billion in 1968. The average weekly benefit amount for total unemployment has risen from \$30.70 in 1959 to \$44.35 in 1968.

A further indication of the inadequacy of the present goal for the trust fund is its relation to the highest cost rate expressed as a percentage of total wages. On June 30, 1959, when the highest cost rate in any 12-month period in the last decade was 1.73 percent of total wages, the \$450 million goal was 2.04 times this cost rate. On June 30, 1969, when the highest cost rate in any 12-month period in the last decade will be 1.35 percent of total wages, the \$450 million goal will be only about 1.47 times the highest cost rate.

The timing of a change in the goal is important in order to conform effectively with the policy guidelines presented earlier. If the goal is left at \$450 million, it will become even less adequate as the potential liability of the fund increases and the fund balance decreases due to the automatic adjustment toward that goal. The longer this goal exists, the greater is the likelihood that the balance will reach a dangerously low level during a recession. This recession will necessitate a sharp increase in contribution rates. If, on the other hand, the goal is raised starting in 1970, rates will rise gradually and will probably not reach the high level of 1962.

For these reasons it is desirable to raise the goal for the determination of the 1970 rates and subsequent ones. The most desirable goal is one that departs from the expression of the goal for the fund as a dollar amount, because eventually a fund expressed in dollars will become inadequate as total wages grow. It would be best if the fund goal were expressed as a percentage of total wages. Meanwhile, the fund goal should at least return to its status of 1959, that is, a multiple of 2.04 times the highest 12-month cost rate. As of June 30, 1969, a fund goal computed in this manner would be \$626 million.

An immediate unrestricted change to such a fund goal would bring about a steep rise in the average contribution rate. To limit such a rise to more moderate proportions, it may be desirable to attempt to reach the fund goal over a three-year period.

TABLE 1. Unemployment trust fund on June 30, 1939-1968, in relation to total and taxable wages in preceding calendar year and to highest cost rate in last decade, Illinois

June 30 of specified year	Unemployment trust fund ^{1/}	Wages in covered employment in preceding calendar year in thousands of dollars ^{2/}		Trust fund as percentage of wages		Multiple of highest cost rate ^{3/}
		Total	Taxable	Total	Taxable	
1939	\$153,885,221	\$2,216,673	\$2,216,673	6.94	6.94	4/
1940	185,971,892	2,441,940	2,441,940	7.62	7.62	4.88
1941	211,340,903	2,774,285	2,511,402	7.62	8.42	4.31
1942	273,597,887	3,457,599	3,113,837	7.91	8.79	4.47
1943	347,715,460	4,161,060	3,722,029	8.36	9.34	4.72
1944	420,590,260	4,881,671	4,310,512	8.62	9.76	4.87
1945	499,352,522	5,310,195	4,585,393	9.40	10.89	5.31
1946	484,370,799	5,285,114	4,534,436	9.16	10.68	5.18
1947	482,738,322	5,919,328	4,988,762	8.16	9.68	4.61
1948	497,649,559	7,024,543	5,710,006	7.08	8.72	4.00
1949	500,308,595	7,714,953	6,049,103	6.46	8.27	3.65
1950	447,355,476	7,450,300	5,802,689	6.00	7.71	3.39
1951	453,082,672	8,084,599	6,094,244	5.60	7.43	3.29
1952	478,725,952	9,151,576	6,607,404	5.23	7.25	3.08
1953	514,144,267	9,759,145	6,848,589	5.27	7.51	3.10
1954	484,957,728	10,656,613	7,220,883	4.55	6.72	2.68
1955	432,456,697	10,422,561	6,934,453	4.15	6.24	2.44
1956	451,217,483	11,279,839	7,244,201	4.00	6.23	2.35
1957	482,370,511	12,538,539	7,834,001	3.85	6.16	2.38
1958	419,502,270	13,069,450	7,942,281	3.21	5.28	1.98
1959	316,492,518	12,738,346	7,580,275	2.46	4.18	1.43

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TABLE 1. Unemployment trust fund on June 30, 1939-1968, in relation to total and taxable wages in preceding calendar year and to highest cost rate in last decade, Illinois-Concl.

June 30 of specified year	Unemployment trust fund ^{1/}	Wages in covered employment in preceding calendar year ^{2/} in thousands of dollars		Trust fund as percentage of wages		Multiple of highest cost rate ^{3/}
		Total	Taxable	Total	Taxable	
1960	\$331,769,427	\$13,807,108	\$7,934,995	2.40	4.18	1.39
1961	321,209,580	14,150,662	7,976,552	2.27	4.03	1.31
1962	344,545,556	14,253,511	7,828,911	2.42	4.40	1.40
1963	385,478,325	15,011,634	8,045,107	2.57	4.79	1.49
1964	439,684,727	15,560,025	8,146,800	2.83	5.40	1.64
1965	505,706,239	16,732,586	8,487,234	3.02	5.96	1.75
1966	554,568,375	18,090,670	8,983,603	3.07	6.17	1.77
1967	564,498,091	19,985,209	9,684,378	2.82	5.83	1.63
1968	529,137,542 ^{5/}	21,161,933 ^{6/}	9,965,895 ^{6/}	2.50	5.31	1.45

^{1/} Source: Illinois Department of Labor, Annual Report, (Fiscal Year 1966-1967) p. 63. The figures for 1939-56 do not include accrued interest on the trust fund for the last quarter nor amounts due from the federal government for reimbursement of benefits. Later figures add these items.

^{2/} Ibid. p. 60.

^{3/} Obtained by expressing the balance of the unemployment trust fund as of June 30 as a percentage of the total wages paid in covered employment during the preceding calendar year and dividing this by the highest cost rate, expressed as a percentage of total wages, of any 12-month period in the last decade. This highest rate was 1.56 percent as of June 30, 1940; 1.77 percent with respect to June 1941 through 1950; 1.70 percent from June 1951 through June 1956; 1.62 percent from June 1957 through June 1959; 1.73 percent from June 1960 through June 1968.

^{4/} Since benefits started July 1, 1939, a benefit cost rate for a 12-month period did not exist as of June 30, 1939.

^{5/} Source: State of Illinois, Department of Labor, Bureau of Employment Security; Monthly Highlights, July 1968.

^{6/} United States Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data 1946-1963 (Revised May 1964), Supplements for 1966 and 1967.

TABLE 2. Benefits, benefit cost rate, state experience factor, and average contribution rate, Illinois, 1939-1969^{1/}

Year	Benefits in thousands of dollars ^{2/}	Benefit cost rate		State experience factor (percent)			Average contribution rate (percent of taxable wages)
		Percentage of total wages ^{3/}	Percentage of taxable wages ^{3/}	State experience factor (percent)			
				Unadjusted	Adjusted		
1939	\$16,783 4/	.69 4/	.69 4/	5/	5/	2.70	
1940	43,565	1.57	1.73	5/	5/	2.70	
1941	28,367	.82	.91	5/	5/	2.70	
1942	38,105	.92	1.02	5/	5/	2.70	
1943	10,035	.21	.23	18	0	1.53 6/	
1944	6,972	.13	.15	19	0	1.70 6/	
1945	36,359	.69	.80	19	0	1.47 6/	
1946	77,542	1.31	1.55	18	-6	.79	
1947	47,229	.67	.83	17	-5	.85	
1948	50,230	.65	.83	19	-4	1.05	
1949	105,384	1.41	1.82	19	-6	1.01	
1950	93,020	1.15	1.53	19	-6	.76	
1951	56,877	.62	.86	19	-2	1.09	
1952	57,345	.59	.84	20	-2	1.10	
1953	51,085	.48	.71	20	-4	.90	
1954	133,369	1.28	1.92	19	-7	.61	
1955	78,115	.69	1.08	17	-5	.72	
1956	61,398	.49	.78	18	0	1.10	
1957	80,307	.61	1.01	18	-2	1.00	
1958	216,545	1.70	2.86	19	-4	.78	
1959	129,708	.94	1.63	18	0	1.06	

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TABLE 2. Benefits, benefit cost rate, state experience factor, and average contribution rate, Illinois, 1939-1969^{1/} -Concl.

Year	Benefits in thousands of dollars ^{2/}	Benefit cost rate		State experience factor (percent)		Average con- tribution rate (percent of taxable wages)
		Percentage of total wages ^{3/}	Percentage of taxable wages ^{3/}	Adjustment		
				Unadjusted	Adjusted	
1960	\$136,148	.96	1.71	22	40	2.05
1961	184,189	1.29	2.35	22	39	2.07
1962	144,917	.97	2.80	23	42	2.20
1963	145,942	.94	1.79	22	38	2.05
1964	115,128	.69	1.36	23	33	1.93
1965	89,497	.49	1.00	23	25	1.36
1966	70,514	.35	.73	22	14	.81
1967	90,273	.43	.91	22	7	.41
1968	94,112	.41	.90	21	4	.27
1969	8/	8/	8/	21	9	.40

1/ Sources: United States Bureau of Employment Security, Handbook of Unemployment Insurance Financial Data, 1935-1958 (Revised Edition, April 1960), Section II; Handbook of Unemployment Insurance Financial Data, 1946-1963 (Revised May 1964), pp. 87-88; and 1964 through 1967 supplements; Illinois Division of Unemployment Compensation.

2/ Includes both regular and temporary emergency State benefits, adjusted for voided checks and for transfers under the interstate combined-wage plan.

3/ For wages in 1939-1967 see Table 1. For 1968, total wages were estimated as \$22,780,000,000 and taxable wages were estimated as \$10,456,000,000.

4/ Benefit payments began July 1, 1939.

5/ None. Experience rating began in 1943.

6/ Includes effect of war risk contributions.

7/ Estimated.

8/ Unavailable.

TABLE 3. Assumptions for estimation of Illinois unemployment trust fund in 1969-1971

Year	Total wages	Taxable wages (millions of dollars)	Benefits	Benefit cost rate		Unadjusted state experience factor (percent)
				Percentage of total wages	Percentage of taxable wages	
1968	\$22,780	\$10,456	\$ 94.1	.41	.9	21
				Continued Prosperity		
1969	24,500	10,980	98.0	.4	.9	21
1970	26,500	11,580	106.0	.4	.9	21
1971	28,600	12,180	114.4	.4	.9	21
				Mild recession in 1970		
1969	23,800	10,660	142.8	.6	1.3	21
1970	24,300	10,670	267.3	1.1	2.5	22
1971	26,200	11,210	183.4	.7	1.6	23
				Severe recession in 1970		
1969	23,600	10,570	141.6	.6	1.3	21
1970	23,000	10,170	391.0	1.7	3.8	22
1971	23,600	10,600	221.4	.9	2.1	23

TABLE 4. Unemployment trust fund,^{1/} Illinois 1968-1971, subject to assumptions of Table 3

Year	Amounts are in millions of dollars				Unemployment trust fund at end of year as	Percentage of total wages	Multiple of highest cost rate in past decade ^{4/}
	Receipts		Unemployment trust fund December 31 ^{2/}	Total wages in year ended June 30 ^{3/}			
	Contributions	Interest on fund					
	Total						
1968	\$ 52.7	\$ 31.2	\$ 21.5	Continued prosperity	\$ 21,955	2.36	1.36
1969	62.2	42.2	20.0		483.0	2.05	1.52
1970	82.1	63.4	18.7		459.1	1.80	1.33
1971	100.7	82.7	18.0		445.4	1.62	1.25
1968	52.7	31.2	21.5	Mild recession in 1970	21,955	2.36	1.36
1969	60.5	41.4	19.1		23,275	1.88	1.39
1970	84.5	70.8	13.7		24,042	1.06	0.79
1971	176.9	167.3	9.6		25,221	0.98	0.75
1968	52.7	31.2	21.5	Severe recession in 1970	21,955	2.36	1.36
1969	60.1	41.0	19.1		23,178	1.89	1.40
1970	78.8	67.6	11.2		23,309	0.54	0.32
1971	193.8	189.9	3.9		23,776	0.41	0.24

^{1/} All of the figures given in this table are estimated.

^{2/} Including interest for the last quarter, which is credited after the end of the year. As a result of rounding, the difference between successive fund balances may not agree exactly with the difference between receipts and benefits.

^{3/} The figures for the fiscal years ended June 30, 1969-71, were obtained by interpolation between assumed calendar year figures.

^{4/} The highest benefit cost rate in any 12-month period of the last decade was 1.73 percent of total wages in December 1968, 1.35 percent in December 1969 and 1970, and 1.30 percent in December 1971, with the following exceptions. Under the assumption of a severe recession in 1970, it would be 1.7 percent in December 1970 and 1971.

TABLE 5: Estimation^{1/} of contributions for 1968-1971 subject to assumptions of Table 3

Year	Estimated average benefit wage ratio (percent)	Adjusted state experience factor (percent)	Average contribution rate (percent)	Taxable wages in millions of dollars	Assessed contributions for year in millions of dollars
Continued prosperity					
1968	4.231	4	.27	\$10,456	\$28.2
1969	3.988	9	.40	10,980	43.9
1970	4.074	15	.57	11,580	66.0
1971	4.278	19	.70	12,180	85.3
Mild recession in 1970					
1968	4.231	4	.27	10,456	28.2
1969	3.988	9	.40	10,660	42.6
1970	4.174	19	.69	10,670	73.6
1971	5.719	40	1.58	11,210	177.1
Severe recession in 1970					
1968	4.231	4	.27	10,456	28.2
1969	3.988	9	.40	10,570	42.3
1970	4.173	19	.69	10,170	70.2
1971	6.634	49	1.91	10,600	202.5

^{1/} The average benefit wage ratios and the adjusted state experience factors for 1968 and 1969 are actual.
All other figures in this table are estimated.

PREPARATION OF REPORT

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